



deltathree, Inc.
75 Broad Street, 31st Floor
New York, NY 10004

Eugene Serban
General Counsel and Secretary
Phone (212) 500-7705
Fax (212) 500-4888

July 25, 2007

Via DHL and Facsimile (1 415 397 2577)
Glen Jones
Counsel
Global IP Solutions
301 Brannan Street Sixth Floor
San Francisco, CA 94107

Re: OEM License and Distribution Agreement

Dear Mr. Jones:

We are in receipt of your letter dated July 19, 2007 regarding your contention that the OEM License and Distribution Agreement dated August 19, 2005 between GPS and deltathree (the "Agreement") should terminate because of our alleged material breach of the Agreement. All terms not otherwise defined herein shall be as defined in the Agreement.

We vigorously disagree with your characterization that we have, in any way, materially breached the Agreement. We have addressed below each of the items that you raised in your letter.

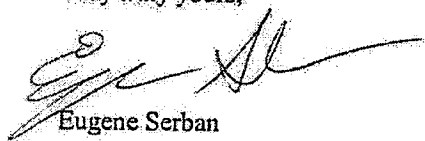
1. Failure to provide an accurate Royalty Report for the calendar quarter ending December 31, 2006. We provided a Royalty Report for the 4th Quarter ending December 31, 2006 reflecting the number of Incremental Active Users. During the audit process and based on our thorough and detailed analysis of our database, we discovered that the original report was not completely correct. We corrected the report and submitted to PWC, your auditor, an accurate report with a summary for the 1st through the 4th Quarters of 2006 and the 1st Quarter of 2007.
2. Failure to provide an accurate Royalty Report within 30 days after the end of the calendar quarter ending March 31, 2007. We did not submit the report for the 1st Quarter of 2007 within that time frame because we were in the process of preparing this report for this period and all other periods for your auditor. As indicated in point 1 above, we fully cured this matter by submitting to PWC, your auditor, a few weeks ago an accurate Royalty Report for the 1st Quarter of 2007. If you would like us to resubmit any reports, it would be our pleasure to resubmit any reports that you need.

3. Failure to pay Royalties in the amount of US\$1.00 for each Incremental Active User for the calendar quarter ending December 31, 2006. To date, we have paid US\$25,350 in royalty payments in compliance with the terms of the Agreement. In accordance with the reports we presented to your auditor, the peak number of users using the GIPS SW solution occurred during the 2nd Quarter of 2006 (at the level of 25,338), and we accordingly made the payments as required by the Agreement. The total amount paid by us to date represents payment for all royalty fees owed by deltathree to you under the Agreement.
4. Failure to pay Royalties in the amount of US\$1.00 for each Incremental Active User for the calendar quarter ending March 31, 2007. Please see our response to point number 3 above.
5. Failure to cooperate fully with GIPS and its auditors PWC in connection with the current audit. Under no reasonable interpretation of the factual events that have occurred can we understand why you claim that we have not cooperated. We have allocated significant time and resources to assist you and PWC during this process and we continue to be available for any item required by you or PWC. In fact, we have had an open exchange with PWC, and PWC has had several conference calls and email exchanges with two of our senior managers, Effi Baruch, Senior VP of Operations and Technology, and Richard Grant, Senior VP of Finance and Treasurer. I personally know that Mr. Grant has been extremely responsive to PWC to the point where he has on repeated occasions tried to contact and reach PWC without PWC being equally responsive and helpful.
6. Alleged representation that Mr. Shimmy Zimels, CEO of deltathree, stated to GIPS representatives that deltathree would not honor the terms of the Agreement to pay GIPS the amount of \$1.00 for each incremental active user. Once again, this is a completely inaccurate assertion. At no time did Mr. Zimels or any representative of deltathree deny GIPS' right to receive \$1 for each incremental user or claim that deltathree would not honor the terms of the Agreement with regard to this payment. In fact, Mr. Zimels and other representatives of deltathree conducted several meetings with both GIPS representatives and PWC to specifically explain our calculation of the active and incremental users. You have expressed to us that you have an interpretation different than our position of how to determine incremental active users. We understand that we both have a difference of opinion and we, therefore, offered several proposals in order to resolve the disagreement. One of the options that deltathree offered was accepted by GIPS as the method for calculating incremental active users in the future but not as the method for calculating incremental active users retroactively.

Based on the above, we do not believe under any circumstance that we have materially breached the Agreement. Furthermore, although you have alleged that a material breach has occurred, deltathree has completely cured all alleged breaches to date and the Agreement therefore cannot terminate. As provided in Section 14.4 of the Agreement, the Agreement cannot terminate if any alleged breach is cured prior to expiration of the termination notice period. Consequently, we do not believe that there is any legitimate or permissible ground for you to claim that the Agreement will terminate. Moreover, deltathree has invested significant time and resources in adding and integrating the GIPS solution to deltathree's service offerings and an immediate termination of the Agreement by GIPS for any alleged material breach would cause material harm and damages to deltathree. Nevertheless, if GIPS is not interested in continuing to work with deltathree, please let us know so that we can work together on a mutually acceptable transition process.

This is to advise you that deltathree reserves the right to take any and all further legal action necessary to enforce its rights under the Agreement.

Very truly yours,

A handwritten signature in black ink, appearing to read 'E. Serban', with a long horizontal flourish extending to the right.

Eugene Serban
General Counsel

cc: Shimmy Zimels, CEO of deltathree
Effi Baruch, SVP of Operations and Technology
Richard Grant, SVP - Finance